

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
CLERK**

**For The Period
June 8, 2005 Through December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY CLERK

**For The Period
June 8, 2005 Through December 31, 2005**

The Auditor of Public Accounts has completed the Fulton County Clerk's audit for the period June 8, 2005 through December 31, 2005. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$21 from the prior period, resulting in excess fees of \$21 as of December 31, 2005.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
Honorable Betty Abernathy, Fulton County Clerk
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Fulton County, Kentucky, for the period June 8, 2005 through December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the period June 8, 2005 through December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable David Gallagher, Fulton County Judge/Executive
Honorable Betty Abernathy, Fulton County Clerk
Members of the Fulton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Fulton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

June 14, 2007

FULTON COUNTY
 BETTY ABERNATHY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period June 8, 2005 December 31, 2005

Revenues

State Fees For Services	\$	2,902
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Fiscal Court		5,700
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	61,848
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Usage Tax		210,622
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Tangible Personal Property Tax		213,924
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Ad Valorem Liens		605
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Other-

Fish and Game Licenses		2,526
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Marriage Licenses		2,001
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Occupational Licenses		660
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Deed Transfer Tax		8,709
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Delinquent Tax	41,552	542,447
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		3,495
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Real Estate Mortgages		4,433
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Chattel Mortgages and Financing Statements		12,465
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Powers of Attorney		250
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All Other Recordings		1,600
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Deeds of Release		1,608
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Charges for Other Services-

Candidate Filing Fees		550
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Copywork	916	25,317
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Other:

Notary Bonds		253
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Miscellaneous	558	811
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Interest Earned		177
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Borrowed Money		4,200
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Total Revenues		581,554
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The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 BETTY ABERNATHY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period June 8, 2005 Through December 31, 2005
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	47,006	
Usage Tax		205,393	
Tangible Personal Property Tax		64,359	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		2,377	
Delinquent Tax		3,321	
Legal Process Tax		3,935	\$ 326,391

Payments to Fiscal Court:

Tangible Personal Property Tax	17,944	
Delinquent Tax	3,934	
Deed Transfer Tax	8,310	30,188

Payments to Other Districts:

Tangible Personal Property Tax	123,027	
Delinquent Tax	16,283	139,310

Payments to Sheriff 351

Payments to County Attorney 12,268

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 25,689

Materials and Supplies-

Office Supplies 3,021

Other Charges-

Conventions and Travel 1,673

Dues 350

Postage 2,168

Refunds 453

Advertising 29

Bank Charges 49

Bad Debt Expense 214 33,646

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 BETTY ABERNATHY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period June 8, 2005 Through December 31, 2005
 (Continued)

Expenditures (Continued)

Debt Service:		
Borrowed Money Repaid	\$	<u>4,200</u>
Total Expenditures		<u>\$ 546,354</u>
Net Revenues		35,200
Less: Statutory Maximum		<u>32,356</u>
Excess Fees		2,844
Less: Expense Allowance	2,025	
Training Incentive Benefit	<u>798</u>	<u>2,823</u>
Excess Fees Due County for 2005		21
Payment to Fiscal Court - March 14, 2006		<u>21</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

For The Period June 8, 2005 Through December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period June 8, 2005 Through December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$15,010. Grant funds earned interest of \$28 during the year with no grant funds being expended. The unexpended grant balance was \$15,038 as of December 31, 2005.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period June 8, 2005 Through December 31, 2005
(Continued)

Note 5. Fiscal Court Contributions

The Fulton County Fiscal Court appropriated \$4,650 to the County Clerk's office April 17, 2006, to cover an excess of expenditures over revenues for 2005. These funds are included in 2005 receipts on the accompanying financial statement.

FULTON COUNTY
BETTY ABERNATHY, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Period June 8, 2005 Through December 31, 2005

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. The County Clerk performs all bookkeeping functions. The County Clerk has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- Each deputy should prepare a daily cash checkout sheet and compare the total funds received per daily cash check out sheet to total funds received. Any difference between the total funds received and the daily cash checkout sheet should be documented. There may be differences due to overages, shortages, or accounts receivables. The County Clerk should review these reports each day and document her review.
- The County Clerk should allow a deputy to prepare a consolidated daily checkout sheet for all of the deputies in the office and post these consolidated amounts to the receipts ledger each day. The deputy should also account for all pre-numbered receipts issued for that day.
- The County Clerk should prepare the bank deposit, and take the deposit to the bank each day. The bank deposit should be reconciled to the consolidated daily checkout sheet and receipts ledger. Any differences should be explained and the County Clerk should document her review.
- The County Clerk should allow a deputy to prepare checks for signature and post these amounts to a disbursements ledger. The County Clerk should compare the checks to the invoices or reports. If the amount of the check is correct, the County Clerk should sign the check and mark the supporting documentation as paid. The County Clerk should mail the checks.
- The County Clerk should allow a deputy to perform the monthly bank reconciliation, reconciling bank receipts and disbursements to the receipts and disbursements ledgers. The County Clerk should document her review.
- The County Clerk should allow a deputy to prepare the fourth quarter financial report from the receipts and disbursements ledgers. The County Clerk should document her review.

County Clerk's Response:

None.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
Honorable Betty Abernathy, Fulton County Clerk
Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Fulton County Clerk for the period June 8, 2005 through December 31, 2005, and have issued our report thereon dated June 14, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 14, 2007

